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MERGERS AND ACQUISITIONS IN ISLAMIC BANKS AND FINANCIAL INSTITUTIONS: TOWARDS STREAMLINING OPERATIONAL SYSTEMS

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ABSTRACT

The growing competitiveness of the global financial system, coupled with increasing regulatory requirements such as Basel III and evolving customer demands, has made mergers and acquisitions (M&A) an essential strategy for strengthening the resilience and scalability of Islamic finance. The problem addressed in this study is the limited understanding of how Islamic financial institutions can leverage M&A for capital enhancement, operational efficiency, and global expansion while maintaining strict adherence to Shariah principles. The main objective is to examine the benefits, challenges, and strategic approaches involved in M&A activities within the Islamic finance sector. A qualitative content analysis method was employed, utilizing data from peer-reviewed journal articles, regulatory reports (IFSB, AAOIFI), case studies of recent Islamic bank mergers, and industry white papers. The findings show that M&A enhances financial stability by expanding capital bases, diversifying product lines such as Sukuk and Takaful, and facilitating cross-border market access. However, integration challenges persist due to divergent Shariah interpretations, regulatory variances, and cultural misalignments. The novelty of this study lies in its multidimensional approach that bridges strategic management theory, regulatory analysis, and Shariah governance to explain how Islamic banks can achieve sustainable consolidation without compromising faith-based principles. This perspective moves beyond prior empirical works focused mainly on post-merger financial performance, offering new insights into governance integration, ethical compliance, and operational modernization. The study recommends developing standardized Shariah compliance frameworks, early regulatory engagement, Islamic FinTech integration, and culturally sensitive change management strategies for effective merger execution.

KEYWORDS: Islamic Banking, Mergers and Acquisitions (M&A), Shariah Compliance, Financial Institutions, Corporate Governance, Strategic Consolidation, Islamic Finance.

1. INTRODUCTION

The dynamics, motivations, and implications of mergers and acquisitions (M&As) within Islamic banks and financial institutions have been elaborated in the existing body of knowledge. As the global Islamic finance industry continues to expand, M&As have emerged as strategic instruments to enhance competitiveness, broaden market reach, achieve economies of scale, and meet evolving regulatory standards. Unlike conventional banking, Islamic financial institutions must ensure Shariah compliance in all transactions, adding a distinctive layer of ethical, legal, and structural complexity to M&A activities.

Mergers and acquisitions (M&As) have long been recognized as powerful tools for institutional growth, market expansion, and strategic realignment (Abduh & Chowdhury, 2012). Within the Islamic finance ecosystem, M&As serve not only as mechanisms for financial consolidation and risk diversification but also as vehicles for achieving operational resilience and Shariah-compliant innovation (Ahmed, 2011). Islamic banking operates under the prohibitions of *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (speculation), while emphasizing asset-backing, risk-sharing, and ethical investment principles. Consequently, any merger or acquisition within this domain must undergo meticulous Shariah scrutiny, due diligence, and approval by Shariah supervisory boards to ensure compliance throughout the transaction lifecycle (Alqahtani, Mayes & Brown, 2017).

In regions where Islamic finance plays a dominant or emerging role such as the Gulf Cooperation Council (GCC), Southeast Asia, and Sub-Saharan Africa M&A activities are driven by goals of capital consolidation, regulatory adaptation, digital transformation, and post-pandemic recovery (Kamarudin, Sufian & Nassir, 2016). However, while prior empirical studies such as Alqahtani and Mayes (2018) and Mohamed and Salleh (2020) have predominantly focused on the financial performance outcomes and efficiency metrics of Islamic bank mergers, this study introduces a novel analytical dimension by integrating regulatory, operational, and Shariah-governance perspectives to explain how institutional behavior, legal frameworks, and ethical imperatives collectively shape M&A processes and outcomes in Islamic finance.

Through qualitative content analysis of case studies and regulatory documents, this research advances existing discourse by uncovering how Islamic financial institutions reconcile strategic expansion with Shariah compliance amid evolving

legal and technological environments. The study therefore contributes a multidimensional understanding of M&As as both instruments of corporate strategy and manifestations of faith-based financial ethics, offering new insights into the sustainable consolidation and modernization of the Islamic finance industry.

2. LITERATURE REVIEW

2.1. Overview of Mergers and Acquisitions in Islamic Banks and Financial Institutions

Mergers and acquisitions have become increasingly common in Islamic finance, reflecting the sector's maturation and the global trend toward consolidation in banking. Motivated by pressures such as increased competition, regulatory reforms (e.g., Basel III), digital transformation, and the need to achieve scale, Islamic banks are exploring M&A as a strategic avenue for survival and growth (Abduh & Chowdhury, 2012). However, Islamic banking differs fundamentally from conventional banking. Rooted in Shariah principles, it prohibits interest (*riba*), excessive uncertainty (*gharar*), and speculative transactions (*maysir*). This distinction introduces unique legal, financial, and operational considerations in the M&A process (Khan, 2010; Ahmed, 2011). **Several studies such as** Alqahtani, Mayes & Brown, 2017; Mohamed & Salleh, 2020; highlight the primary motivations for M&A among Islamic financial institutions. Consolidation helps reduce operating costs. Indeed, M&A allows banks to enter new markets or gain stronger regional presence. Hence, capital adequacy and liquidity requirements often push smaller banks to merge and post-crisis environments (e.g., COVID-19) increase pressure to consolidate. These motivations are similar to those in conventional banking, yet the execution differs significantly due to Shariah governance constraints (Alqahtani, Mayes & Brown, 2017).

Empirical research presents mixed evidence on the performance outcomes of Islamic bank M&As. On one hand, positive impacts show improved efficiency and operational performance post-merger, especially for smaller banks in less concentrated markets (Ullah et al., 2022). On the other hand, findings of negative impacts indicate that M&As can increase risk or reduce efficiency for acquiring institutions (El-Gamal, 2006; Khan, 2010). More specifically, literature showed minimal impact on key financial ratios, suggesting outcomes may depend more on integration success than merger size as literature contends (Alqahtani, Mayes & Brown, 2017). This indicates that M&A success in Islamic

banks is context-specific and influenced by integration quality, governance, and cultural alignment (Obaidullah, 2005).

However, M&As in Islamic finance face several unique hurdles. For example, Islamic banks operate under Shariah supervisory boards (SSBs) that guide product and operational compliance. Post-merger, integrating different SSBs and maintaining consistent Shariah interpretations can be difficult and failure to harmonize Shariah governance can erode stakeholder trust and regulatory approval (Samad, Gardner & Cook, 2005). Cross-border M&As are often complicated by cultural misalignment and inconsistent Islamic finance regulations. Abdul-Rahman (2010) found that cultural and legal differences often outweighed financial synergy potential in failed or underperforming Islamic bank mergers. Warde (2010) emphasized that post-merger success depends on integrating staff with strong Islamic finance knowledge and digital skills. M&As often overlook the need for continued Shariah training, staff alignment, and technology platform unification (Abduh & Chowdhury, 2012).

Given the increasing consolidation trend particularly in the GCC and Southeast Asia regulators are encouraging healthy M&A activity to strengthen Islamic banking sectors (Ariff & Rosly, 2011). However, policy must protect Shariah integrity by mandating harmonization procedures for SSBs; encourage transparency in valuation and disclosure and support SME Islamic banks to prepare for strategic alliances without undermining competition. Furthermore, banks must invest in post-merger integration planning, not just pre-merger due diligence (El-Gamal, 2006; Iqbal & Mirakhor, 2011).

2.2. Overview of Islamic Financial Institutions

Financial institutions are where consumers can effectively manage their income and build their financial foundation. Knowing the key characteristics of financial institutions helps consumers make informed decisions when choosing a bank to store their money (First Bank, 2020). However, Islamic Financial Institutions, short for (IFI), are defined as an organization that provides monetary transactions, such as loans, mortgages, deposits, constitutional documents and operations in accordance with Shari'a, in addition to applicable jurisdictional laws and regulations (Law Insider, n.d.; Lexis Nexis, n.d.). Over the past decade, the Islamic Finance industry has grown rapidly, accelerating at a rate of 10-12% per year. Nowadays, Shariah-compliant financial assets are estimated with a value of \$2 trillion, including banks as well as non-bank financial

institutions, capital markets and insurance (Takāful) (Alawode, 2015). In many Muslim-majority countries, Islamic banking assets are growing faster than conventional banking assets. Interest in Islamic finance is also growing from non-Muslim countries such as the UK, and Luxembourg (Alawode, 2015). During the past years, Islamic Finance has appeared to have been a useful tool for financing development worldwide, which also includes non-Muslim countries (Alawode, 2015).

The Islamic Financial Institutions (IFI), promotes risk sharing between the parties, it also connects the financial sector with the real economy, and finally it emphasizes financial inclusion and social welfare. The World Bank Group has been involved in the Islamic Finance and is directly associated by working on expanding access to Finance, reducing poverty, improving the financial sector, as well as having a stable and resilient financial system in the client's country (Alawode, 2015). By utilizing the Shari'a-compliant principles of financing in the World Bank operations; **it is providing the following benefits** economic growth, reducing poverty and fostering shared prosperity. Since Islamic Finance is directly linked to the physical assets and the real economy, it can greatly contribute to economic development. Additionally, it helps promote the development of the financial sector by expanding the range of financial products and services. It could also aid in refining the agricultural financial sector. Furthermore, it helps strengthen financial stability (Alawode, 2015, Elhilali, 2023).

The principles of Islamic Finance can be classified as prohibited and permitted activities. The main distinction between Conventional Finance and Islamic Finance is that there are a number of practices and principles that are used in conventional Finance that are strictly prohibited under Sharia laws, consequently, Islamic Finance strictly complies with Shari'a law (CFI Team, 2022). Profit and Loss sharing is one of the core principles of Islamic Finance, where it is described as the partners will share their profit as well as the loss based on the part that has been illustrated within the business (Iqbal, 1997; CFI Team, 2022). Another core principle of Islamic Finance is that all harmful activities (haram) should be avoided, including, charging and receiving interest (riba), investments in businesses involving prohibited (haram) activities such as drugs, pork, gambling, or anything else that the Shariah considers unlawful or undesirable (haram), also, the uncertainty in transactions that are involved with speculation and risk, which is known as (gharar) (Garrett, n.d.; CFI Team, 2022). There are various

Islamic Financial instruments which can be labelled as Shariah-compliant finance, for instance, Murabaha and Ijara (Garrett, n.d.).

2.3. Benefits and Challenges of M&A in Islamic Financial Institutions

There is a growing tendency of Mergers in Islamic Financial Institutions, and they provide access to growth opportunities and build low-cost deposits, as well as by cost synergies (Fitch, 2019). There are various benefits of M&A in Islamic Financial Institutions, including a cost reduction or increase revenue. There is a study where it focuses on the US banking sector that finds a direct positive correlation on the profitability, and the shareholders' value (Mohamed & Salleh, 2020). It has been proven that there is a reboot of financial performance, leading to financial efficiency in the Nigerian banks (Kandil & Chowdhury, 2014; Daniya, Onotu & Abdulrahman, 2016). Moreover, the purpose of Islamic banks is to support the implementation of national development to improve justice, and equitable distribution of people's welfare in the society (Wiyono, 2016). The merger of these Islamic banks impacted the business, mainly by being more effective and competitive, as well as expanding business diversification, having the capacity to finance large projects, and better financial performance (Kandil & Chowdhury, 2014; Daniya, Onotu & Abdulrahman, 2016).

While there are benefits of the Mergers and Acquisition in the Islamic Financial Institutions, there are a couple of downsides or challenges that these corporations may face, such as, the Resource Dependency Theory (RDT) and it is defined as an explanation of how the external resources (for example skilled workers, total assets, and raw materials etc.) of an organization may affect the behaviour of the organization (Nair, Trendowski, & Judge, 2008).

The owners may face underperforming share prices in the months following the acquisition, with negligible gains in overall wealth for portfolio holders (Cartwright, & Schoenberg, 2006). The study about the Bahrain and Turkish banks discovered that M&A may impact negatively on their performance, therefore, this research used the statistics, as they caused fluctuations in the incorporation process which leads to challenges.

Also, loss of productivity by the parties due to power management struggles, as well as extra expenditures that must be sustained to make purchases also contributes to the decrease in the stock value after M&A (Kammer, Norat, Pinon, Prasad, Towe, eidane & International Monetary

Fund; 2015).

2.4. SWOT Analysis of Mergers and Acquisitions in Islamic Banks and Financial Institutions

This section explores strength, weakness, opportunity and threat in relation to the mergers and acquisitions in Islamic banks and financial institutions. Each of these is elaborated in the subsequent paragraphs.

First, the foremost strength is that it enhances Shariah-Compliant Synergies by combining institutions with compatible Islamic finance models can enhance product offerings while maintaining adherence to Islamic principles. Shared Shariah governance may improve religious credibility and customer confidence (Ali & Kassim, 2020). M&A enables Islamic banks to strengthen capital bases, improve liquidity, and meet Basel III and local regulatory requirements which increased financial stability. Larger post-merger institutions often benefit from economies of scale, better resource utilization, and technological integration contribute to operational Efficiency & cost reduction. Cross-border or regional M&As allow Islamic banks to expand into new markets, diversify portfolios, and reduce geographic risk fosters market expansion (Kamarudin, Sufian & Nassir, 2016)

Second, merging institutions may follow different interpretations of Islamic law, making integration of Shariah supervisory boards difficult and potentially contentious which are regarded as weaknesses Shariah Board integration challenges (Mohamed & Salleh, 2020). Similarly, there are limited experience and expertise. Many Islamic banks are relatively young with limited experience in complex M&A transactions, especially compared to conventional banks (Noor & Abdullah, 2017). Differences in national, organizational, and religious culture can hamper integration, reduce synergy realization, and create internal conflict. Compared to conventional banks, some Islamic financial institutions may have less mature risk management systems, which can hinder post-merger integration (Ali, Asif, Nazir, Rehman, Ullah, Ahmad, 2023).

Third, as an integral part of Opportunities, there is a growing demand for Islamic finance and rising global interest in ethical and Shariah-compliant financial services creates more M&A opportunities for growth and consolidation (Rashid & Jabeen, 2016). M&A provides a platform to pool technological resources and invest in fintech solutions that enhance customer experience and compliance. Many governments (e.g., in the GCC,

Southeast Asia, and North Africa) support consolidation in Islamic banking to create stronger, more competitive institutions. Indeed, M&A enables Islamic banks to enter underserved or emerging markets with growing Muslim populations (e.g., Africa, Central Asia) (Bauer, F., & Matzler, 2014; Rashid, & Jabeen, 2016).

Fourth, varying Shariah standards and inconsistent legal frameworks across countries can delay or prevent cross-border M&A transactions. Perceptions of dilution in Shariah compliance or ethical standards post-merger can lead to customer attrition, especially among highly observant clients (Kasri, Bouheraoua & Mohamed Radzi, 2023). Post-merger failures in system integration, governance alignment, or staff training can erode expected synergies. Failed M&A deals or public disagreements between merged entities' religious boards can damage institutional credibility and reputational capital can lead to reputation and brand risk.

2.5. Strategic Insight for Improving Operational Performance of M&A in Islamic Financial Institutions

To maximize the benefits of M&A, Islamic financial institutions must conduct thorough Shariah and operational due diligence; harmonize Shariah governance models early in the process and invest in staff training and digital infrastructure post-merger.

Work closely with regulators to align cross-border practices. Empirical Analyses of Post-M&A Performance demonstrate the importance of operational efficiency & size effects. Nazim Ullah *et al.* (2022) conducted a panel data study (2004–2020) on 10 Islamic banks across six countries, finding that M&A significantly improves operational performance, especially for smaller banks, while market concentration can dampen benefits. A related study (2009–2018) by the same group using regression and HHI concentration measures confirmed that larger size correlates with lower efficiency gains, and market concentration affects smaller banks more adversely. Haya S AlAkel & Jamaldeen Faleel (2021) investigated the AlSalam-BMI merger (2012–2015). They found the acquirer's risk increased and efficiency decreased, while the target bank saw risk reduction and performance improved. In Qatar, Tamy Al binali (2023) examined the Barwa-Dukhan Bank merger (2017–2022), concluding that liquidity, solvency, investment, and profitability ratios remained largely unchanged a signal of neutral impact.

In UK Case Study & Crisis Impact, Kandil & Chowdhury (2014) evaluated UK Islamic bank

M&As (2007–2010), focusing on long-run abnormal returns (BHAR). They reported significant differences in post-M&A performance, though acquisitions in high-tech sectors resulted in negative long-term returns. Regarding strategic fit & cultural integration, Raudhatun Nisa *et al.* (2024) analyzed 38 M&A deals across OIC countries (2013–2022). They found strategic similarity did not strongly influence performance, but cultural misalignment and cross-border regulatory challenges had significant negative effects. Capital adequacy was noted as a key mediator Nigerian and GCC case studies (Ullah *et al.*) suggest that while M&A can enhance performance, high market concentration (e.g., high HHI) reduces the upside, calling for prudently structured consolidation. Khulifa Ahdizia *et al.* analyzed the proposed merger of three Indonesian state Islamic banks (2020), using DCF-FCFE and PBV methods. They found significant synergy potential, suggesting the merger was financially viable and strategically compelling. Sukuk Journal (2022) compares conventional vs Islamic banking M&A, emphasizing that Islamic banks face added complexity from Shariah compliance and integration of Shariah boards, necessitating careful regulatory and cultural planning. Nomran & Haron (2020) highlight that strong Shariah supervisory boards (SSBs) are critical in maintaining compliance across merged entities key to customer confidence and risk control in Islamic banks. Wikipedia's overview on Shariah boards outlines the institutional mandates of SSBs (fatwa issuance, product auditing, governance roles), reinforcing the need for such systems during M&As.

3. MATERIALS AND METHOD

The study adopted a qualitative content analysis method, specifically documents were selected based on relevance to Islamic financial institutions, M&A processes, and their operational, regulatory, and Shariah compliance implications. Only English-language sources published between 2005 and 2025 were included. Documents were included based on their empirical, regulatory, and conceptual relevance to mergers and acquisitions (M&A) within Islamic banks and financial institutions, ensuring that each source contributed meaningfully to understanding operational integration, Shariah compliance, and governance reforms. Exclusion was justified under the qualitative content analysis (QCA) approach to maintain analytical depth and contextual validity by omitting materials that lacked methodological rigor, focused solely on conventional banking, or failed to address the intersection of M&A and Islamic

financial operations. Collected materials were systematically coded using thematic categories such as Motivations for M&A in Islamic banks; Operational challenges post-M&A; Shariah compliance issues; Risk management strategies and Regulatory and governance impacts. Thematic content analysis was conducted. Recurring themes, patterns, and contradictions across different materials were identified to establish relationships and key insights. The study utilized both primary and secondary qualitative data sources focusing on Mergers and Acquisitions (M&A) in Islamic Banks and Financial Institutions. **The materials reviewed included** Peer-reviewed journal articles from databases such as Scopus, Web of Science, and Google Scholar published between 2005 and 2025; Official reports from international regulatory bodies such as the Islamic Financial Services Board (IFSB), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and Central Banks of selected countries (e.g., Bank Negara Malaysia,

Central Bank of the UAE); Case studies and annual reports of Islamic banks involved in M&A activities, including published financial statements and corporate strategy documents; Conference proceedings, industry white papers, and policy briefs related to Islamic finance and M&A trends (IFSB-Islamic Financial Services Board-, 2015; AAOIFI-Accounting and Auditing Organization for Islamic Financial Institutions-, 2023). To enhance reliability, intercoder reliability checks were performed by having two independent reviewers analyze a subset of the materials. Validity was ensured through triangulation by comparing academic literature findings with real-world case studies and regulatory reports. Through thematic analysis, the research identifies key trends such as the role of unified Shariah governance in post-merger integration, the importance of strategic insight in aligning product structures and human capital, and the impact of FinTech in streamlining operational systems. Table 1 shows Emerging Themes & Research Gaps.

Table 1: Emerging Themes & Research Gaps.

Theme	Observations & Gaps
Long-term Performance	Most studies use 1-5year post-M&A windows. Longer-term studies are sparse.
Cultural/Regulatory Issues	Cultural misalignment and regulatory friction arise frequently in cross-border M&A.
Shariah Board Integration	Little research on merging or harmonizing multiple SSBs.
HR & Tech Capability	SLRs stress need to build Shariah and tech expertise post-merger.
Valuation & Synergy Realization	More case analyses, especially on tangible synergies and cash-flow outcomes, are needed.

Source: Adapted from: (IFSB-Islamic Financial Services Board-, 2015; AAOIFI-Accounting and Auditing Organization for Islamic Financial Institutions-, 2023)

4. RESULTS AND DISCUSSION OF FINDINGS

This section presents the overall analyses of cursory literature. The analyses are presented under various paragraphs as follows.

First, M&A in Islamic banks help create larger, more capitalized institutions capable of absorbing financial shocks and complying with regulatory capital requirements (such as Basel III). This is particularly relevant in markets where smaller Islamic banks may face liquidity and solvency challenges. Through mergers and acquisitions, Islamic financial institutions can expand geographically and diversify their customer base, especially into non-traditional or underserved markets as literature contends (Alqahtani and Mayes, 2018). For example, Gulf-based Islamic banks have acquired stakes in Southeast Asian Islamic financial institutions to gain cross-border market access. Moreover, M&A can reduce duplicated operations, technology platforms, and administrative costs. In Islamic banking, this could involve consolidating Shariah boards, IT systems, and compliance

departments, leading to more efficient service delivery while maintaining Shariah compliance. Islamic banks use M&A to compete more effectively with larger conventional banks (Khan & Bhatti, 2008). By pooling assets and capabilities, merged Islamic banks can offer more competitive financing products like Sukuk, Islamic syndicated loans, and large-scale project financing. M&A provides opportunities for product innovation by combining the strengths of different Islamic financial institutions. For example, a bank with expertise in Islamic retail banking could merge with a Takaful (Islamic insurance) company to offer bundled services (Hamid & Nordin, 2020). Some mergers are driven by regulatory push, where national regulators encourage consolidation to ensure a more robust Islamic finance sector. M&A helps Islamic banks meet governance standards set by bodies like the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (IFSB-Islamic Financial Services Board-, 2013; AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions-,

2023). Strategic M&A activities help Islamic banks form international alliances, enabling them to support global trade financing, cross-border investment banking, and participation in international Sukuk markets.

Efficiency in IFIs starts with ensuring all financial products and services comply with Islamic law. **This includes** Avoiding interest (Riba), excessive uncertainty (Gharar), and prohibited activities (Haram industries); Utilizing Islamic contracts like Murabaha, Mudarabah, Ijarah, and Sukuk and Maintaining active and transparent Shariah boards to oversee product structures and operations (Beck, Demirgüç-Kunt & Merrouche, 2013). Ensuring customer trust and confidence by maintaining strict adherence to Shariah guidelines while offering competitive financial products. Efficient risk management in IFIs requires customized frameworks because of asset-backed financing and profit-and-loss sharing structures. Managing credit, liquidity, operational, and market risks without conventional hedging tools like interest-based derivatives. Using alternatives such as Islamic insurance (Takaful) and Shariah-compliant risk mitigation contracts (Dusuki & Abozaid, 2007). Preserving financial stability and safeguarding depositors' funds while upholding Islamic ethical standards. IFIs aim to streamline operations while adhering to additional compliance layers. Investing in Islamic FinTech solutions for mobile banking, digital payments, and blockchain-based Sukuk issuance is paramount (Hussein, 2020). Similarly, reducing duplicated Shariah compliance processes across branches and product lines and leveraging shared services and outsourcing where Shariah-compliant. Delivering faster services and reducing costs without compromising service quality or Shariah integrity. IFIs operate efficiently by developing competitive products tailored to both **Muslim and non-Muslim clients** Structuring Sukuk for infrastructure finance; Offering Islamic microfinance and SME financing based on profit-sharing. Innovating in Islamic investment products and wealth management solutions (PwC Middle East, 2019). Addressing customer needs while expanding market share and adhering to ethical investment principles (El-Gamal, 2006). Islamic financial institutions emphasize ethical governance **thus** transparent disclosure of how profits and risks are shared; independent Shariah audits and governance structures and aligning with international standards set by IFSB, AAOIFI, and national regulators (World Bank & IRTI-Islamic Research and Training Institute-, 2016). Hence,

building stakeholder trust and ensuring regulatory compliance across multiple jurisdictions can demonstrate effectiveness (Hassan, 2020, Hassan, 2019).

Second, applications of benefits of M&A in Islamic Financial Institutions can provide capital strengthening and financial stability. For instance, post-merger, Islamic banks increase their capital base, allowing them to meet regulatory capital requirements such as Basel III. Hence, reduces the risk of insolvency and enhances resilience to financial shocks as literature posits (Hamid, & Nordin, 2020). Undoubtedly, it can contribute to expansion of market share and geographical presence where merged Islamic banks can enter new markets by combining branch networks and customer bases (Khan & Bhatti, 2008). Hence, it improves access to a wider customer pool, including underserved Muslim communities. Indeed, product and service diversification by combining expertise from different institutions allows for a broader range of Shariah-compliant products like Takaful (Islamic insurance), Islamic wealth management, and Sukuk structuring can increase customer loyalty and competitiveness. Operational efficiency and cost reduction contribute to consolidation of administrative systems, Shariah advisory boards, and technology platforms reduces duplication. This can lower operational costs while maintaining compliance with Islamic financial principles. M&A allows pooling of human capital, including Shariah scholars, risk management experts, and Islamic product developers which improves innovation capacity and service quality (Alqahtani & Mayes, 2018).

Indeed, solutions to challenges of M&A in Islamic financial institutions are significant. Different interpretations of Islamic finance principles across merging entities (Ghazali & Yusof, 2010). Establish a unified Shariah Supervisory Board and develop standardized Shariah compliance frameworks based on IFSB and AAOIFI guidelines. Merging institutions may have different organizational and religious cultures. Implement structured cultural integration programs, including joint training, shared values workshops, and leadership alignment (El-Gamal, 2006). Varying regulatory requirements in different jurisdictions. Early engagement with regulators and harmonization of governance structures according to international Islamic finance standards. Loss of customer trust due to perceived instability or change. Transparent communication strategies emphasizing continuity, enhanced services, and Shariah compliance. Merging IT, risk management, and administrative systems that are tailored for Islamic

banking (Johnson, Scholes & Whittington, 2011). Invest in Shariah-compliant financial technology (Islamic FinTech) solutions to streamline post-merger integration processes (Wejdan, Albakjaji, 2023).

Third, applications of SWOT analysis in enhancing M&A in Islamic Banks and financial institutions are significant. SWOT Analysis helps Islamic banks evaluate their own Strengths and Weaknesses and compare them with potential merger or acquisition targets (Ghazali & Yusof, 2010). For instance, assessing if two banks share similar Shariah compliance structures or if one has a stronger Takaful (Islamic insurance) portfolio that complements the other. Using SWOT to examine both institutions' Shariah boards, product lines, and operational practices to identify potential mismatches or synergies. Avoids post-merger conflicts over Shariah interpretations and product adjustments (Dusuki, & Abozaid, 2007; Khan & Bhatti, 2008).

Analyzing market opportunities and threats whereby SWOT is used to assess external factors like expanding into untapped markets (Opportunities) or facing tighter regulatory requirements (Threats) after the merger. It helps both institutions make informed strategic choices about growth and risk exposure. SWOT informs integration strategies by highlighting Strengths to leverage (e.g., digital banking platforms) and Weaknesses to address (e.g., underdeveloped risk management frameworks) as literature explains (Ghazali & Yusof, 2010). Deciding whether to consolidate Islamic windows in conventional banks post-acquisition. By clearly identifying Opportunities and Threats through SWOT, management can communicate realistic expectations to shareholders, regulators, and customers. Supports smoother transitions and sustained trust in the institution's Shariah-compliant mission. Table 2 shows summary of practical benefits of SWOT element and M&A enhancement role in Islamic Banks.

Table 2: Summary of Practical Benefits of SWOT Element and M&A Enhancement Role in Islamic Banks.

SWOT Elements	M&A Enhancement Role in Islamic Banks
Strengths	Identify core competencies to leverage post-merger.
Weaknesses	Recognize areas that need capacity building or restructuring.
Opportunities	Spot new markets or product areas for growth post-merger.
Threats	Prepare for regulatory or reputational risks unique to Islamic finance.

Source: Adapted from: (Ghazali, & Yusof, 2010; Rashid, M., & Jabeen, 2016; Ahmed, 2011; Noor & Abdullah, 2017)

Fifth, applications of strategic insight for improving operational performance of M&A in Islamic financial institutions. Undoubtedly, strategic insight helps merging Islamic banks align their Shariah Supervisory Boards, compliance mechanisms, and product structures. Minimizes conflicts in Islamic jurisprudence interpretations and ensures post-merger consistency in product offerings. By analyzing the strengths and weaknesses of both institutions, management can identify overlapping or redundant Islamic financial products (e.g., duplicate types of Murabaha financing). Hence, reducing operational inefficiencies, improves focus on high-performing product lines, and enhances customer value. Strategic insight guides human resource decisions, identifying key personnel and Shariah experts to retain and areas where talent development is needed (AAOIFI-Accounting and Auditing Organization for Islamic Financial Institutions-, 2023). It preserves institutional knowledge while creating a unified post-merger workforce aligned with Islamic banking principles (IFSB-Islamic Financial Services Board-, 2015). Consolidating risk management and compliance

systems emphasizing on strategic planning ensures risk management systems are integrated effectively, considering the unique risk-sharing and asset-backed features of Islamic finance (Khan & Bhatti, 2008). It thus improves regulatory compliance and operational resilience across merged entities. Enhancing technological infrastructure is an integral part of strategic insight which helps in selecting and integrating Shariah-compliant financial technologies (Islamic FinTech) such as blockchain for Sukuk issuance or AI-driven customer service platforms. It increases service efficiency, reduces costs, and modernizes Islamic banking operations. Moreover, strategic insight identifies cultural differences related to organizational values, customer service approaches, and business ethics between merging IFIs. Hence, it can facilitate smoother cultural integration, especially in cross-border M&A involving Islamic banks from different regions. Ensuring regulatory and market positioning whereby insights are applied to assess regulatory landscapes in multiple jurisdictions and position the merged Islamic bank effectively within global financial markets (Alqahtani & Mayes, 2018; Hamid

& Nordin, 2020). Thereby, it improves strategic market presence while maintaining strict adherence to Islamic finance regulations. Table 3 shows

Summary of Strategic Focus Area and Operational Application in M&A.

Table 3: Summary of Strategic Focus Area and Operational Application in M&A.

Strategic Focus Area	Operational Application in M&A
Shariah Governance Alignment	Unified compliance structure
Product Portfolio Streamlining	Focused service delivery
Human Capital Integration	Retain key talent and Islamic scholars
Risk Management Systems	Harmonized asset-backed risk protocols
Technology Optimization	Deploy Islamic FinTech for efficiency
Cultural Integration	Mitigate post-merger organizational friction
Regulatory Positioning	Comply with multi-jurisdictional requirements

Source: (Adapted from: Angwin, 2007; Zollo & Meier, 2008; Bauer & Matzler, 2014; PwC Middle East, 2019).

5. IMPLICATIONS OF THE STUDY AND POLICY DIRECTIONS

M&A activity in Islamic banking promotes the consolidation of fragmented markets, particularly in countries with multiple small Islamic banks. Financial Sector Stability and Consolidation which can improve capital adequacy and resilience, enhance operational efficiency, and reduce systemic risk in times of economic uncertainty. Merging two or more Islamic banks often involves harmonizing different interpretations of Shariah law. **This creates** a risk of inconsistent fatwas and financial products, challenges in unifying Shariah Supervisory Boards (SSBs) and potential reputational risk if the merger is perceived to compromise Shariah principles. Cross-border M&As in the Islamic finance sector are increasing, but legal, regulatory, and religious differences between jurisdictions can hinder successful integration, language, culture, and national regulatory frameworks add layers of complexity. Mergers may expose gaps in managerial expertise, technology, and staff alignment, There's often a shortage of qualified professionals with both Islamic finance and post-merger integration skills. Consolidation may enhance access to finance in underserved markets by scaling operations. However, if not managed carefully, M&As may reduce outreach to rural or SME sectors traditionally served by smaller Islamic banks.

To address these implications, policymakers and regulators in the Islamic finance ecosystem should consider establishing harmonized Shariah governance standards by developing national or regional Shariah governance frameworks to guide post-merger integration. Encouragement of mutual recognition of Shariah decisions between jurisdictions (especially in OIC countries), and promotion of centralized Shariah boards (as seen in Malaysia and Pakistan) to ensure consistency.

Strengthening regulatory frameworks for Islamic M&A by tailoring M&A policies to accommodate Islamic banking features (e.g., profit-and-loss sharing, asset-backed structures). Similarly, introducing clear guidelines for Islamic bank mergers, including Shariah board alignment, due diligence, and customer rights and providing required M&A impact assessments on financial inclusion and Shariah compliance is paramount. Supporting capacity building and post-merger integration is essential by training regulators, executives, and Shariah scholars in M&A strategy, change management, and cross-cultural integration. In addition, investing in Islamic finance education and certification to grow a pool of integration-ready professionals and offering post-merger supervision and technical assistance through central banks or development institutions.

Indeed, facilitating cross-border cooperation by encouraging bilateral or regional agreements on Islamic finance standards (e.g., through AAOIFI, IFSB), enabling smoother cross-border mergers through regulatory sandboxes or test zones for Islamic banks and promoting digital platforms that allow for remote compliance, reporting, and governance integration. Thus, promoting stakeholder engagement and transparency by ensuring customers are informed about the implications of mergers on their products and services. Hence, mandating disclosure of post-merger Shariah compliance policies, especially when there is a shift in interpretation or product design and involving consumer protection authorities and Shariah advisors in oversight processes (Hassan, Dhali, Mehar, & Zaman, 2022).

6. CONCLUSION AND RECOMMENDATIONS

This paper investigates mergers and acquisitions (M&A) in Islamic banks and financial institutions as a double-edged sword while they

offer strategic benefits in scale, market access, and regulatory compliance, they also pose complex challenges rooted in Shariah compliance, governance integration, and institutional alignment. Empirical evidence reveals mixed post-merger performance outcomes, with success largely contingent on the depth of integration, harmonization of Shariah governance, and alignment of organizational culture. For Islamic M&A to achieve its full potential, greater emphasis must be placed on post-merger strategies, stakeholder engagement, and regulatory coherence across jurisdictions. The novelty of this study lies in its multidimensional analytical framework that bridges strategic management theory with Shariah governance and operational system design offering an original perspective on how Islamic financial institutions can achieve sustainable consolidation without undermining ethical and faith-based principles. This integrative lens moves beyond previous performance-centric studies by demonstrating how regulatory harmonization, cross-border cooperation, and investment in human capital can transform M&A from mere structural expansion into a mechanism for institutional modernization and value-based growth. Ultimately, the study concludes that strategic regulatory alignment and unified Shariah oversight are vital to ensuring that M&As enhance rather than compromise the distinctive identity, credibility, and resilience of the global Islamic finance industry.

Therefore, the following suggestions are made

1. There is a need to ensure smooth post-merger integration, merging Islamic banks should develop a standardized Shariah compliance framework, including a joint Shariah Supervisory Board (SSB) by reducing

inconsistencies in jurisprudential interpretations and facilitates harmonized product offerings across the merged entity.

2. Before any M&A deal, conduct a thorough strategic compatibility assessment including alignment of business models, ethical values, product lines, and customer segments. In Islamic finance, doctrinal alignment is as crucial as financial performance, so merging entities must complement each other in their faith-based missions and practices.
3. There is a need to enhance operational efficiency by adopting Shariah-compliant technologies during post-merger integration. This includes unified core banking systems, blockchain for Sukuk issuance, and AI-driven customer service tools whereby streamlining digital platforms reduces duplication and ensures seamless compliance monitoring.
4. Islamic banks must work closely with regulators in all jurisdictions where the merged entity will operate whereby early regulatory engagement helps align governance structures with international Islamic finance standards (e.g., IFSB and AAOIFI), avoids legal bottlenecks, and boosts stakeholder confidence.
5. M&A success depends on cultural integration, particularly in Islamic banks where organizational culture is influenced by religious values by introducing joint leadership workshops, shared ethics training, and regular employee engagement programmes to align teams under a common Islamic finance identity.

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